

City of Rockville, Maryland

Proposed General Obligation Bonds, Series 2013A and General Obligation Refunding Bonds, Series 2013B



January 15, 2013

The PFM Group

comprised of:

Public Financial Management, Inc.

PFM Asset Management LLC

PFM Advisors

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January 15, 2013

Mr. Gavin Cohen, Chief Financial Officer
City of Rockville
City Hall
111 Maryland Avenue
Rockville, MD 20850

Dear Mr. Cohen:

Public Financial Management Inc. (PFM) is pleased to submit preliminary sizings, an estimated time schedule and our credentials to the City of Rockville, Maryland (the "City") to continue to serve as its Financial Advisor.

We have prepared for your review preliminary amortization schedules for the City's upcoming general obligation bond transaction with 20 year schedules, and a preliminary time schedule which targets a competitive bond sale in February of 2013. This schedule includes the Resolution of Intent that was adopted by the Council in May 2012, Ordinance received in January 2013, with Council action in February 2013, and bond proceeds available in March 2013. Also included is information regarding a current refunding opportunity.

As an appendix to this proposal we have included a detailed description of our scope of services for both competitive and negotiated transactions, and resumes for the PFM team.

We hope our past performance, comprehensive scope of services and the depth of expertise presented in this proposal will encourage the City to continue its partnership with PFM as its Financial Advisor.

Please let us know if you have any questions or would like additional clarification.

Sincerely,

Public Financial Management

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Preliminary Time Schedule

Preliminary Time Schedule

The time schedule on the following pages targets a competitive bond sale, for both the new money and refunding bonds, on Monday, February 25, 2013.

This schedule includes:

1. Resolution of Intent passed in May 2012;
2. Ordinance received and introduced to the Mayor and Council on January 28, 2013;
3. Council action on the Ordinance on February 4, 2013; and
4. Bond proceeds available by the end of March 2013.

TIME SCHEDULE

MAYOR AND COUNCIL, CITY OF ROCKVILLE, MARYLAND

General Obligation Bonds, Series 2013A
General Obligation Refunding Bonds, Series 2013B

JANUARY							FEBRUARY							MARCH						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
			1	2	3	4						1	2						1	2
6	7	8	9	10	11	12	3	4	5	6	7	8	9	3	4	5	6	7	8	9
13	14	15	16	17	18	19	10	11	12	13	14	15	16	10	11	12	13	14	15	16
20	21	22	23	24	25	26	17	18	19	20	21	22	23	17	18	19	20	21	22	23
27	28	29	30	31			24	25	26	27	28			24	25	26	27	28	29	30
														31						

<i>Date</i>	<i>Task</i>	<i>Description</i>	<i>Responsibility</i>
May 21, 2012	Council Meeting	<ul style="list-style-type: none"> Approval of Resolution of Intent 	City
January 2013	Preliminary Structuring	<ul style="list-style-type: none"> Bond sizing and Proposal to City, including preliminary debt service schedules and structure 	FA
January 28	Council Meeting	<ul style="list-style-type: none"> Ordinances introduced to Mayor and Council 	City
January 14 - 29	Document Preparation	<ul style="list-style-type: none"> Prepare and distribute first draft of preliminary official statement for comments due Jan 7th 	FA
Week of January 28	Document Preparation	<ul style="list-style-type: none"> Review draft documents Distribute second draft POS, comments due to FA by Jan 29th 	City, FA, BC City, BC
Week of January 28	Presentation Preparation	<ul style="list-style-type: none"> Prepare and distribute first draft of Rating Agency Presentation for comments due Feb 1st 	FA
February 1 - 12	Request Ratings	<ul style="list-style-type: none"> Documents to Rating Agencies (by Feb 5th) <p>*Note: S&P requires receipt of POS 10 business days prior to the release of a rating*</p>	FA
February 4	Council Meeting	<ul style="list-style-type: none"> Approval of Ordinances by Mayor and Council 	City
By February 6	Presentation Preparation	<ul style="list-style-type: none"> Distribute second draft of Rating Agency Presentation for comments due Feb 8th 	FA
Week of February 11	Credit Review	<ul style="list-style-type: none"> Conference calls or in person meetings with Rating Agencies (specific dates and times TBD) 	City, FA, RA
	Publication	<ul style="list-style-type: none"> Publish Notice of Sale 	City

<i>Date</i>	<i>Task</i>	<i>Description</i>	<i>Responsibility</i>
February 15 - 22	Market Bonds	<ul style="list-style-type: none"> • Notify Bloomberg Financial Services, the Bond Buyer, TM3, Sure-Bid, CUSIP, and Parity of upcoming sales • Call potential bidders • Notify wire services 	FA FA City
February 19	POS Posting and Printing	<ul style="list-style-type: none"> • Print POS and distribute • Post POS electronically on PFM website 	FA FA
By February 20	Ratings Received	<ul style="list-style-type: none"> • Ratings assigned and credit reports received 	RA
February 25	Bond Sale	<ul style="list-style-type: none"> • Bond Sale and Award 	City, BC, FA
February 26 – March 19	Closing Preparations	<ul style="list-style-type: none"> • Prepare closing documents • Confirm closing date and funds transfer • Closing letter to all parties (By March 15th) • Prepare postsale analysis 	FA FA FA FA
March 20	Closing	<ul style="list-style-type: none"> • Purchaser pays for the Bonds (receipt of funds by the City) 	City, BC, FA
By March 29	Postsale	<ul style="list-style-type: none"> • Postsale analysis distributed to the City 	FA

Financing Team Members:

City = City of Rockville, Maryland

BC = Bond Counsel (Venable LLP)

FA = Financial Advisor (Public Financial Management, Inc.)

RA = Rating Agencies (Moody's Investors Service, Inc. and Standard & Poor's)



Preliminary Schedules

New Issue (Series 2013A Bonds)

The proposed new money issue will be financing \$18,796,543 of public improvement projects; therefore, it will not be eligible to be designated as bank qualified tax-exempt bonds. An issuer can designate the issuance of tax-exempt bonds as bank qualified bonds if the issuance of tax-exempt bonds is \$10 million or less in a calendar year.

Preliminary schedules for the upcoming General Obligation Bonds of 2013 (the "New Issue") have been provided on the following pages. The assumptions utilized in the preliminary schedules are as follows:

1. Competitive bond sale on February 25, 2013;
2. Dated Date as of Delivery, currently estimated to be March 20, 2013;
3. Interest payments to begin on December 1, 2013;
4. Principal repayments to begin on June 1, 2015;
5. Proceeds to provide \$1,260,000 for water system facility improvements have been gross funded and amortized over 20 years;
6. Proceeds to provide \$3,871,843 for water main rehabilitation projects have been gross funded and amortized over 20 years;
7. Proceeds to provide \$11,656,000 for Blue Plains Wastewater Treatment improvements have been gross funded and amortized over 20 years;
8. Proceeds to provide \$2,008,700 for Horizon Hill Storm water Management Ponds have been gross funded and amortized over 20 years;
9. Payments have been structured to effect a level principal structure per project;
10. No capitalized interest;
11. Current market rates as of January 15, 2013, plus 15 basis points, reflecting recent triple "A" bond sales;
12. Cost of issuance estimate;
13. Minimum bid of Par for the competitive sale; and
14. Underwriter compensation estimate of 0.8%.

Please note that the preliminary par amount of the bonds is less than the required project costs. This is due to the fact that the minimum bid requirement would be a bid of no less than par, and the estimated net premium reduces the issue size. We would propose to allow for adjustment of the par amount after receipt of bids, as we have done on prior bond issues. This adjustment would ensure that the City does not issue bonds in excess of the project needs. It does not cost the City to allow for this adjustment, and it is a common feature for competitively issued bonds.



Preliminary Schedules

SOURCES AND USES OF FUNDS

Mayor and Council, City of Rockville, Maryland
 \$18,020,000 General Obligation Bonds, Series 2013
 Preliminary Schedules - January 15, 2013
 Based on current market rates for AAA credit plus 15 bpts contingency

Dated Date 03/20/2013
 Delivery Date 03/20/2013

Sources:	Water	Sewer	Stormwater	Total
Bond Proceeds:				
Par Amount	4,920,000.00	11,175,000.00	1,925,000.00	18,020,000.00
Net Premium	276,007.40	627,286.15	108,600.00	1,011,893.55
	5,196,007.40	11,802,286.15	2,033,600.00	19,031,893.55
Uses:	Water	Sewer	Stormwater	Total
Project Fund Deposits:				
Water Fund	5,131,843.00			5,131,843.00
Sewer Fund		11,656,000.00		11,656,000.00
Stormwater Fund			2,008,700.00	2,008,700.00
	5,131,843.00	11,656,000.00	2,008,700.00	18,796,543.00
Delivery Date Expenses:				
Cost of Issuance	24,572.69	55,812.99	9,614.32	90,000.00
Underwriter's Discount	39,360.00	89,400.00	15,400.00	144,160.00
	63,932.69	145,212.99	25,014.32	234,160.00
Other Uses of Funds:				
Contingency	231.71	1,073.16	(114.32)	1,190.55
	5,196,007.40	11,802,286.15	2,033,600.00	19,031,893.55



Preliminary Schedules

BOND DEBT SERVICE

Mayor and Council, City of Rockville, Maryland
\$18,020,000 General Obligation Bonds, Series 2013
Preliminary Schedules - January 15, 2013
Based on current market rates for AAA credit plus 15 bpts contingency

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
12/01/2013			376,918.33	376,918.33	
06/01/2014			270,300.00	270,300.00	647,218.33
12/01/2014			270,300.00	270,300.00	
06/01/2015	910,000	3.000%	270,300.00	1,180,300.00	1,450,600.00
12/01/2015			256,650.00	256,650.00	
06/01/2016	910,000	3.000%	256,650.00	1,166,650.00	1,423,300.00
12/01/2016			243,000.00	243,000.00	
06/01/2017	910,000	3.000%	243,000.00	1,153,000.00	1,396,000.00
12/01/2017			229,350.00	229,350.00	
06/01/2018	910,000	3.000%	229,350.00	1,139,350.00	1,368,700.00
12/01/2018			215,700.00	215,700.00	
06/01/2019	905,000	3.000%	215,700.00	1,120,700.00	1,336,400.00
12/01/2019			202,125.00	202,125.00	
06/01/2020	900,000	3.000%	202,125.00	1,102,125.00	1,304,250.00
12/01/2020			188,625.00	188,625.00	
06/01/2021	900,000	3.000%	188,625.00	1,088,625.00	1,277,250.00
12/01/2021			175,125.00	175,125.00	
06/01/2022	900,000	3.000%	175,125.00	1,075,125.00	1,250,250.00
12/01/2022			161,625.00	161,625.00	
06/01/2023	900,000	3.000%	161,625.00	1,061,625.00	1,223,250.00
12/01/2023			148,125.00	148,125.00	
06/01/2024	900,000	3.000%	148,125.00	1,048,125.00	1,196,250.00
12/01/2024			134,625.00	134,625.00	
06/01/2025	900,000	3.000%	134,625.00	1,034,625.00	1,169,250.00
12/01/2025			121,125.00	121,125.00	
06/01/2026	900,000	3.000%	121,125.00	1,021,125.00	1,142,250.00
12/01/2026			107,625.00	107,625.00	
06/01/2027	900,000	3.000%	107,625.00	1,007,625.00	1,115,250.00
12/01/2027			94,125.00	94,125.00	
06/01/2028	900,000	3.000%	94,125.00	994,125.00	1,088,250.00
12/01/2028			80,625.00	80,625.00	
06/01/2029	900,000	3.000%	80,625.00	980,625.00	1,061,250.00
12/01/2029			67,125.00	67,125.00	
06/01/2030	895,000	3.000%	67,125.00	962,125.00	1,029,250.00
12/01/2030			53,700.00	53,700.00	
06/01/2031	895,000	3.000%	53,700.00	948,700.00	1,002,400.00
12/01/2031			40,275.00	40,275.00	
06/01/2032	895,000	3.000%	40,275.00	935,275.00	975,550.00
12/01/2032			26,850.00	26,850.00	
06/01/2033	895,000	3.000%	26,850.00	921,850.00	948,700.00
12/01/2033			13,425.00	13,425.00	
06/01/2034	895,000	3.000%	13,425.00	908,425.00	921,850.00
	18,020,000		6,307,468.33	24,327,468.33	24,327,468.33



Preliminary Schedules

DETAILED BOND DEBT SERVICE

Mayor and Council, City of Rockville, Maryland
\$18,020,000 General Obligation Bonds, Series 2013

Preliminary Schedules - January 15, 2013

Based on current market rates for AAA credit plus 15 bpts contingency
Water Fund

Serial Bonds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
12/01/2013			102,910	102,910	
06/01/2014			73,800	73,800	176,710
12/01/2014			73,800	73,800	
06/01/2015	250,000	3.000%	73,800	323,800	397,600
12/01/2015			70,050	70,050	
06/01/2016	250,000	3.000%	70,050	320,050	390,100
12/01/2016			66,300	66,300	
06/01/2017	250,000	3.000%	66,300	316,300	382,600
12/01/2017			62,550	62,550	
06/01/2018	250,000	3.000%	62,550	312,550	375,100
12/01/2018			58,800	58,800	
06/01/2019	245,000	3.000%	58,800	303,800	362,600
12/01/2019			55,125	55,125	
06/01/2020	245,000	3.000%	55,125	300,125	355,250
12/01/2020			51,450	51,450	
06/01/2021	245,000	3.000%	51,450	296,450	347,900
12/01/2021			47,775	47,775	
06/01/2022	245,000	3.000%	47,775	292,775	340,550
12/01/2022			44,100	44,100	
06/01/2023	245,000	3.000%	44,100	289,100	333,200
12/01/2023			40,425	40,425	
06/01/2024	245,000	3.000%	40,425	285,425	325,850
12/01/2024			36,750	36,750	
06/01/2025	245,000	3.000%	36,750	281,750	318,500
12/01/2025			33,075	33,075	
06/01/2026	245,000	3.000%	33,075	278,075	311,150
12/01/2026			29,400	29,400	
06/01/2027	245,000	3.000%	29,400	274,400	303,800
12/01/2027			25,725	25,725	
06/01/2028	245,000	3.000%	25,725	270,725	296,450
12/01/2028			22,050	22,050	
06/01/2029	245,000	3.000%	22,050	267,050	289,100
12/01/2029			18,375	18,375	
06/01/2030	245,000	3.000%	18,375	263,375	281,750
12/01/2030			14,700	14,700	
06/01/2031	245,000	3.000%	14,700	259,700	274,400
12/01/2031			11,025	11,025	
06/01/2032	245,000	3.000%	11,025	256,025	267,050
12/01/2032			7,350	7,350	
06/01/2033	245,000	3.000%	7,350	252,350	259,700
12/01/2033			3,675	3,675	
06/01/2034	245,000	3.000%	3,675	248,675	252,350
	4,920,000		1,721,710	6,641,710	6,641,710



Preliminary Schedules

DETAILED BOND DEBT SERVICE

Mayor and Council, City of Rockville, Maryland
 \$18,020,000 General Obligation Bonds, Series 2013
 Preliminary Schedules - January 15, 2013
 Based on current market rates for AAA credit plus 15 bpts contingency
 Sewer Fund

Serial Bonds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
12/01/2013			233,743.75	233,743.75	
06/01/2014			167,625.00	167,625.00	401,368.75
12/01/2014			167,625.00	167,625.00	
06/01/2015	560,000	3.000%	167,625.00	727,625.00	895,250.00
12/01/2015			159,225.00	159,225.00	
06/01/2016	560,000	3.000%	159,225.00	719,225.00	878,450.00
12/01/2016			150,825.00	150,825.00	
06/01/2017	560,000	3.000%	150,825.00	710,825.00	861,650.00
12/01/2017			142,425.00	142,425.00	
06/01/2018	560,000	3.000%	142,425.00	702,425.00	844,850.00
12/01/2018			134,025.00	134,025.00	
06/01/2019	560,000	3.000%	134,025.00	694,025.00	828,050.00
12/01/2019			125,625.00	125,625.00	
06/01/2020	560,000	3.000%	125,625.00	685,625.00	811,250.00
12/01/2020			117,225.00	117,225.00	
06/01/2021	560,000	3.000%	117,225.00	677,225.00	794,450.00
12/01/2021			108,825.00	108,825.00	
06/01/2022	560,000	3.000%	108,825.00	668,825.00	777,650.00
12/01/2022			100,425.00	100,425.00	
06/01/2023	560,000	3.000%	100,425.00	660,425.00	760,850.00
12/01/2023			92,025.00	92,025.00	
06/01/2024	560,000	3.000%	92,025.00	652,025.00	744,050.00
12/01/2024			83,625.00	83,625.00	
06/01/2025	560,000	3.000%	83,625.00	643,625.00	727,250.00
12/01/2025			75,225.00	75,225.00	
06/01/2026	560,000	3.000%	75,225.00	635,225.00	710,450.00
12/01/2026			66,825.00	66,825.00	
06/01/2027	560,000	3.000%	66,825.00	626,825.00	693,650.00
12/01/2027			58,425.00	58,425.00	
06/01/2028	560,000	3.000%	58,425.00	618,425.00	676,850.00
12/01/2028			50,025.00	50,025.00	
06/01/2029	560,000	3.000%	50,025.00	610,025.00	660,050.00
12/01/2029			41,625.00	41,625.00	
06/01/2030	555,000	3.000%	41,625.00	596,625.00	638,250.00
12/01/2030			33,300.00	33,300.00	
06/01/2031	555,000	3.000%	33,300.00	588,300.00	621,600.00
12/01/2031			24,975.00	24,975.00	
06/01/2032	555,000	3.000%	24,975.00	579,975.00	604,950.00
12/01/2032			16,650.00	16,650.00	
06/01/2033	555,000	3.000%	16,650.00	571,650.00	588,300.00
12/01/2033			8,325.00	8,325.00	
06/01/2034	555,000	3.000%	8,325.00	563,325.00	571,650.00
	11,175,000		3,915,868.75	15,090,868.75	15,090,868.75



Preliminary Schedules

DETAILED BOND DEBT SERVICE

Mayor and Council, City of Rockville, Maryland
 \$18,020,000 General Obligation Bonds, Series 2013
 Preliminary Schedules - January 15, 2013
 Based on current market rates for AAA credit plus 15 bpts contingency
 Stormwater Fund

Serial Bonds

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
12/01/2013			40,264.58	40,264.58	
06/01/2014			28,875.00	28,875.00	69,139.58
12/01/2014			28,875.00	28,875.00	
06/01/2015	100,000	3.000%	28,875.00	128,875.00	157,750.00
12/01/2015			27,375.00	27,375.00	
06/01/2016	100,000	3.000%	27,375.00	127,375.00	154,750.00
12/01/2016			25,875.00	25,875.00	
06/01/2017	100,000	3.000%	25,875.00	125,875.00	151,750.00
12/01/2017			24,375.00	24,375.00	
06/01/2018	100,000	3.000%	24,375.00	124,375.00	148,750.00
12/01/2018			22,875.00	22,875.00	
06/01/2019	100,000	3.000%	22,875.00	122,875.00	145,750.00
12/01/2019			21,375.00	21,375.00	
06/01/2020	95,000	3.000%	21,375.00	116,375.00	137,750.00
12/01/2020			19,950.00	19,950.00	
06/01/2021	95,000	3.000%	19,950.00	114,950.00	134,900.00
12/01/2021			18,525.00	18,525.00	
06/01/2022	95,000	3.000%	18,525.00	113,525.00	132,050.00
12/01/2022			17,100.00	17,100.00	
06/01/2023	95,000	3.000%	17,100.00	112,100.00	129,200.00
12/01/2023			15,675.00	15,675.00	
06/01/2024	95,000	3.000%	15,675.00	110,675.00	126,350.00
12/01/2024			14,250.00	14,250.00	
06/01/2025	95,000	3.000%	14,250.00	109,250.00	123,500.00
12/01/2025			12,825.00	12,825.00	
06/01/2026	95,000	3.000%	12,825.00	107,825.00	120,650.00
12/01/2026			11,400.00	11,400.00	
06/01/2027	95,000	3.000%	11,400.00	106,400.00	117,800.00
12/01/2027			9,975.00	9,975.00	
06/01/2028	95,000	3.000%	9,975.00	104,975.00	114,950.00
12/01/2028			8,550.00	8,550.00	
06/01/2029	95,000	3.000%	8,550.00	103,550.00	112,100.00
12/01/2029			7,125.00	7,125.00	
06/01/2030	95,000	3.000%	7,125.00	102,125.00	109,250.00
12/01/2030			5,700.00	5,700.00	
06/01/2031	95,000	3.000%	5,700.00	100,700.00	106,400.00
12/01/2031			4,275.00	4,275.00	
06/01/2032	95,000	3.000%	4,275.00	99,275.00	103,550.00
12/01/2032			2,850.00	2,850.00	
06/01/2033	95,000	3.000%	2,850.00	97,850.00	100,700.00
12/01/2033			1,425.00	1,425.00	
06/01/2034	95,000	3.000%	1,425.00	96,425.00	97,850.00
	1,925,000		669,889.58	2,594,889.58	2,594,889.58



Preliminary Schedules

Current Refunding Bonds (Series 2013B)

In addition to the New Issue, it is proposed that the City also go out for competitive bids to issue General Obligation Refunding Bonds of 2013 (the "Refunding Bonds"). In June of 2003 the City issued \$13,395,000 General Obligation Bonds, Series 2003A to finance various public improvements within the City.

The 2003A Bonds have a principal payment date of March 15th and although the City's preference for debt issued after 2005 has been principal payments on June 1st, the Refunding Bonds will continue to have March 15th payment dates.

Currently, the proposed structuring considerations for the Refunding Bonds are as follows:

1. Competitive bond sale on February 25, 2013;
2. Dated Date as of Delivery, currently estimated to be March 20, 2013;
3. Interest payments to begin on September 15, 2013;
4. Principal repayments to begin on March 15, 2014;
5. Proceeds to provide \$6,695,000 to call and redeem the callable par of the 2003A Bonds on the call date of March 28, 2013;
6. Debt service structured to effect level savings;
7. No capitalized interest;
8. Current market rates as of January 15, 2013, plus 15 basis points, reflecting recent triple "A" bond sales;
9. Cost of issuance estimate;
10. Minimum bid of Par for the competitive sale; and
11. Underwriter compensation estimate of 0.6%.



Preliminary Schedules

SUMMARY OF REFUNDING RESULTS

Mayor and Council, City of Rockville, Maryland
 Preliminary Schedules - January 15, 2013
 Current Refunding of Series 2003A Bonds
 Call Date: March 28, 2013

Dated Date	03/20/2013
Delivery Date	03/20/2013
Arbitrage yield	1.226489%
Escrow yield	
Bond Par Amount	6,330,000.00
True Interest Cost	1.624318%
Net Interest Cost	1.703605%
Average Coupon	3.000000%
Average Life	5.429
Par amount of refunded bonds	6,695,000.00
Average coupon of refunded bonds	3.646424%
Average life of refunded bonds	5.483
PV of prior debt to 03/20/2013 @ 1.226489%	7,537,595.53
Net PV Savings	627,452.96
Percentage savings of refunded bonds	9.371964%
Percentage savings of refunding bonds	9.912369%



Preliminary Schedules

SAVINGS

Mayor and Council, City of Rockville, Maryland
Preliminary Schedules - January 15, 2013
Current Refunding of Series 2003A Bonds
Call Date: March 28, 2013

Date	Prior Debt Service	Refunding Debt Service	Savings	Present Value to 03/20/2013 @ 1.2264890%
03/15/2014	895,845.20	832,262.50	63,582.70	62,872.05
03/15/2015	884,206.26	815,550.00	68,656.26	67,139.67
03/15/2016	863,268.76	796,200.00	67,068.76	64,788.45
03/15/2017	841,493.76	776,850.00	64,643.76	61,684.35
03/15/2018	818,713.76	752,500.00	66,213.76	62,401.95
03/15/2019	795,263.76	728,300.00	66,963.76	62,328.53
03/15/2020	771,143.76	704,250.00	66,893.76	61,492.51
03/15/2021	746,353.76	680,350.00	66,003.76	59,921.62
03/15/2022	721,228.76	651,600.00	69,628.76	62,423.67
03/15/2023	690,768.76	623,150.00	67,618.76	59,867.05
	8,028,286.54	7,361,012.50	667,274.04	624,919.86

Savings Summary

PV of savings from cash flow	624,919.86
Plus: Refunding funds on hand	2,533.10
Net PV Savings	627,452.96



Preliminary Schedules

BOND DEBT SERVICE

Mayor and Council, City of Rockville, Maryland
Preliminary Schedules - January 15, 2013
Current Refunding of Series 2003A Bonds
Call Date: March 28, 2013

Period Ending	Principal	Coupon	Interest	Debt Service	Annual Debt Service
09/15/2013			92,312.50	92,312.50	
03/15/2014	645,000	3.000%	94,950.00	739,950.00	832,262.50
09/15/2014			85,275.00	85,275.00	
03/15/2015	645,000	3.000%	85,275.00	730,275.00	815,550.00
09/15/2015			75,600.00	75,600.00	
03/15/2016	645,000	3.000%	75,600.00	720,600.00	796,200.00
09/15/2016			65,925.00	65,925.00	
03/15/2017	645,000	3.000%	65,925.00	710,925.00	776,850.00
09/15/2017			56,250.00	56,250.00	
03/15/2018	640,000	3.000%	56,250.00	696,250.00	752,500.00
09/15/2018			46,650.00	46,650.00	
03/15/2019	635,000	3.000%	46,650.00	681,650.00	728,300.00
09/15/2019			37,125.00	37,125.00	
03/15/2020	630,000	3.000%	37,125.00	667,125.00	704,250.00
09/15/2020			27,675.00	27,675.00	
03/15/2021	625,000	3.000%	27,675.00	652,675.00	680,350.00
09/15/2021			18,300.00	18,300.00	
03/15/2022	615,000	3.000%	18,300.00	633,300.00	651,600.00
09/15/2022			9,075.00	9,075.00	
03/15/2023	605,000	3.000%	9,075.00	614,075.00	623,150.00
	6,330,000		1,031,012.50	7,361,012.50	7,361,012.50



Fee Schedule

Fee Schedule

The City has an outstanding contract with PFM. We would propose to utilize the same fee schedule in the contract. For example, if the City were to issue general obligation bonds of \$18.020 million, the fee would be \$29,000 plus out-of-pocket expenses. For the general obligation refunding bonds of \$6.330 million, the fee would be \$16,500 plus out-of-pocket expenses.

We are quite flexible as to the structure of the fees, and are willing to work with the City to reach an overall compensation structure that is fair and reasonable to all concerned.

Arbitrage Rebate

PFM has been providing arbitrage rebate compliance services since 1989. Over the past 21 years, we have assisted hundreds of issuers and borrowers, including authorities, cities, counties, health care and higher education systems, school districts, states, and 501 c(3) organizations, in complying with the complicated and onerous post-issuance compliance requirements commonly referred to as the "Arbitrage Rebate Regulations."

PFM's Arbitrage Group efficiently completes a significant volume of calculations each year. PFM arbitrage rebate specialists annually prepare in excess of 3,000 calculations, including arbitrage rebate, yield restriction compliance, and spending exception compliance calculations for the 350+ clients that have engaged our services through a separate contractual arrangement, and for the hundreds of participants with bond proceeds invested in the thirteen local government investment pool programs that we support.

Katia M. Frock, Senior Managing Consultant
 PFM Asset Management LLC
 One Keystone Plaza, Suite 300
 N. Front & Market Streets
 Harrisburg, PA 17101
 (717) 232-2723
 (717) 232-5138 fax
 Email: frockk@pfm.com

PFM provides its clients with complete, detailed arbitrage rebate reports for each separate bond issue being tracked. PFM's reports are frequently distributed to trustees, auditors, bond or tax counsel, or other third parties and may be relied upon to determine if an issuer is required to remit any payments to the IRS.

In the event that an arbitrage rebate payment is due, PFM finalizes calculations, completes the required payment forms on behalf of the issuer, and provides remittance assistance to ensure that all payments are received by the IRS on-time. Each of the professionals in PFM's Arbitrage Group who complete calculations is registered with the IRS and has a PTIN (Preparer Tax Identification Number).

PFM offers a dedicated team of professionals to assist the City with its needs related to Arbitrage Rebate calculations and preparation of reports, separate from the proposed fee listed above for financial advisory services.

The Arbitrage Regulations require arbitrage rebate and yield restriction compliance calculations to be prepared for each issuance of tax-exempt bonds. The first required calculation must be completed on a date that is not later than 5 years after the issue date. Subsequent calculations are due every five years thereafter and as of the final maturity date of the bonds. The City's \$21,750,000 General Obligation Bonds, Series of 2007 were issued on September 27, 2007 and are due to have a calculation prepared as soon as possible. The City's \$13,150,000 General Obligation Bonds of 2008, were issued on September 25, 2008, and will be due for their 5-year anniversary calculation later this year. Should the City wish to have PFMAM provide arbitrage rebate related services for these issues, we would do so for a fee of \$2,900, per bond issue.



Firm Background & Project Team

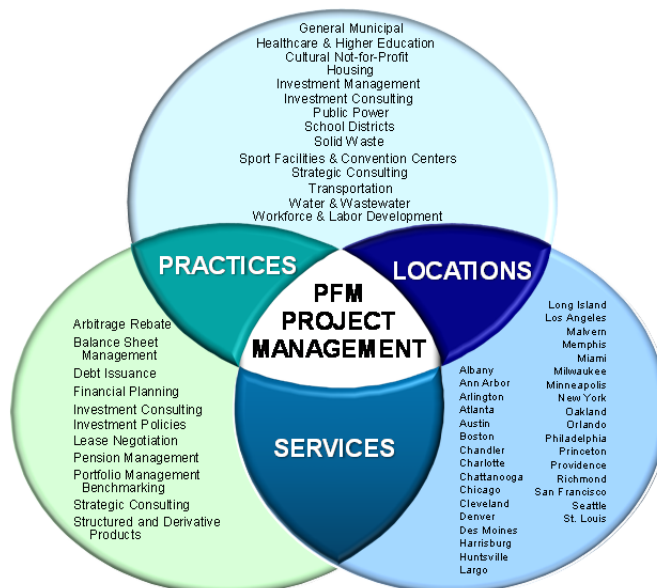
Firm Background

The PFM Group is the nation's leading municipal financial advisor and investment advisory firm. The original practice of the PFM Group of companies, which now includes Public Financial Management, Inc. ("PFM") and PFM Asset Management LLC ("PFMAM"), was founded in 1975 on the principle of providing sound independent financial advice to state and local governments.

The PFM Group's primary business activities include:

- **Financial Advising:** managing transactions related to debt issuance;
- **Investment Management:** providing investment advice and portfolio management for working capital and bond proceeds;
- **Investment Consulting:** structuring simple, reliable, and fundamentally sound asset management strategies and retirement plans;
- **Budget & Management Consulting:** offering highly effective capital and operating budget advice; and
- **Structured Products:** developing innovative financing techniques and investment products.

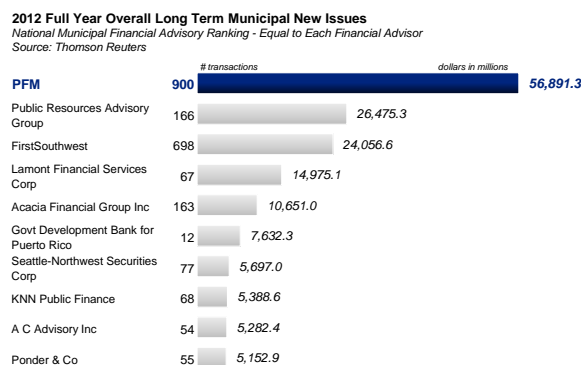
The PFM Group of companies does not trade or underwrite securities. PFM is an independent financial advisory firm and, as such, we serve only one interest—that of our public sector and nonprofit clients. PFM and PFMAM are involved in the capital markets on a daily basis and offer our clients professional resources which equal or surpass those of any investment banking firm without the conflicts of interest that underwriting firms bring to the table. Our only business is providing financial, investment and consulting advice to our clients.



PFM Organization and Experience as Financial Advisor

PFM's practice covers virtually all areas of public finance including primary and secondary schools (public, independent and charter), transportation, general local government, water and sewer, higher education, healthcare, environmental, sport, convention center and cultural facilities, among numerous others. PFM is comprised of advisory groups targeted to both specific government businesses and geographic regions, which operate through the use of project teams. This approach to problem solving facilitates close working relationships among our many professionals. We provide service to our clients by organizing the most efficient and knowledgeable team of PFM professionals to serve each client's specific needs.

Over its 37-year history, PFM has built a market-leading presence in the municipal industry. PFM is the nation's number one financial advisor (as ranked by Thomson Reuters—SDC) for the tenth consecutive year. In 2011, PFM advised on 758 bond issues with a total volume of over \$39.6 billion. In 2012, PFM advised on 900 bond issues with a total volume of over \$56.9 billion. In addition, in 2012, PFM was ranked as the number 1 financial advisor in both competitive issues, 406 bond issues with a total volume of \$13.8 billion; and with negotiated issues, 494 bond issues with a total volume of \$43.0 billion.





Firm Background & Project Team

Project Team

PFM offers the City a project team with expertise in the broadest scope of services in the public finance industry. With 476 professionals nationwide, PFM will offer the City an unmatched pool of professional resources, ensuring: 1) the availability of value-added services dealing with every aspect of a public entity's finances, including, debt management, asset management, structured product procurement and capital and operating budget consulting, and 2) the timely provision of the services proposed.

Ms. Heather Casperson, Senior Managing Consultant, will be the City's main point of contact primarily responsible for the engagement with the City. **Ms. Jessica Cameron Mitchell**, Director will provide additional project management support, competitive sale and rating agency expertise. **Mr. Matt Schnackenberg**, Senior Managing Consultant, **Ms. Arcelia Detert**, Senior Analyst, and **Mr. Miles Silbert**, Analyst, will support the team in providing quantitative and analytical services required for completing all transactions. In addition to the core project team, PFM will utilize the expertise and services of additional personnel as needed or as the City desires. These individuals provide pricing expertise, investment advisory/structured products services, services related to derivative products including swaps and hedges, and arbitrage rebate compliance services.

All team members are knowledgeable of public finance law and regulations and have extensive experience in public interaction and presentations. Our team is unconditionally committed to providing the service that the City deserves and requires.

Resumes for the project team members are presented on the following pages.

Jessica Cameron Mitchell

Director
cameronj@pfm.com

Jessica Cameron Mitchell is a Director in PFM's Minneapolis office. During her fourteen-year career, she has served a variety of pooled programs and state and local government entities including: Hennepin County, Minnesota; city of Duluth, Minnesota; Western Lake Superior Sanitary District, Minnesota; State of Minnesota; Minnesota Public Facilities Authority; Florida Water Pollution Control Corporation; Louisiana Public Facilities Authority; Ohio Water Development Authority; Ohio Public Facilities Commission; North Dakota Building Authority; North Dakota Public Finance Authority; North Dakota State Water Commission; Iowa Finance Authority; and South Dakota Conservancy District.

Ms. Cameron provides project management and day-to-day contact for numerous high profile issuers, as well as a wide variety of analytical and quantitative functions including: new program development, ongoing financial and strategic planning, credit rating strategy, program capacity analysis, the review of legal documents, structuring of bonds, creating models for quantitative analysis and analyzing market conditions.

Ms. Cameron graduated with a BA in Sociology from Asbury College in Wilmore, Kentucky.

Heather Casperson

Senior Managing Consultant
caspersonh@pfm.com

Heather Casperson is a Senior Managing Consultant in the Minneapolis office and has a total of sixteen years of experience in public finance. She provides senior level financial advisory services including: financial analysis, debt schedule development and modeling, preparing for rating agency presentations, and in the preparation and review of disclosure materials.

Ms. Casperson currently works with clients in Minnesota, Iowa, Kansas, Maryland, and North Dakota, including cities, counties, and school districts. Highlighted in the References section are case studies detailing her work with the Minneapolis Special School District No. 1, Minnesota, and city of Overland Park, Kansas.

She has experience presenting in front of large organizations. In 2010, she was featured at the Minnesota GFOA annual conference in a panel and presented the topic of American Recovery and Reinvestment Act of 2009 with emphasis on the new bonding programs available as a result of the Act. In 2011, she presented in another panel on the basics of refunding issues; types and related considerations. In February 2008, she was featured along with representatives from Fitch and Moody's, presenting the topic of preparing for a rating agency meeting at an annual Public Finance Conference in Wichita, Kansas.



Firm Background & Project Team

She received a B.S.B. in general management with an emphasis in psychology from the Carlson School of Management at the University of Minnesota.

Matthew Schnackenberg

Senior Managing Consultant
schnackenbergm@pfm.com

Matthew Schnackenberg joined PFM's Minneapolis office as a Consultant in 2005. Mr. Schnackenberg actively supports senior staff by providing services such as sizing and structuring bond issues, analyzing debt, conducting refunding analyses, developing comprehensive debt profiles and creating Excel based cash flow models. Mr. Schnackenberg also provides

project management and acts as the day-to-day contact for many issuers. He has provided assistance and/or project management on various types of bonds and notes including general obligation and revenue-secured financings. Some of his clients include the State of Minnesota; city of Duluth, Minnesota; city of Sioux Falls, SD; city of Fargo, ND; Minnesota Public Facilities Authority; North Dakota State Water Commission; North Dakota Public Finance Authority; Saint Louis Art Museum, Metropolitan St. Louis Sewer District, Missouri; State of Ohio and the city and county of Honolulu.

Mr. Schnackenberg received a B.B.A. in Finance from the Haworth College of Business at Western Michigan University.

Arcelia Detert

Consultant
deterta@pfm.com

Arcelia Detert joined PFM's Minneapolis office in 2001. Ms. Detert provides a wide variety of analytical and quantitative support by providing support services such as: structuring bonds, preparing and maintaining disclosure documents, conducting refunding analyses, and developing comprehensive debt profiles for all outstanding debt of issuers.

Ms. Detert has provided assistance on various types of bonds and notes including general obligation, lease revenue, sewer revenue, water revenue, aid anticipation notes and alternative facilities. Her clients include: State of Minnesota; Hennepin County, Minnesota; West Fargo School District and Minot School District, North Dakota; Le Sueur-Henderson Schools, New London-Spicer Schools and Holdingford Schools, Minnesota.

Ms. Detert graduated from the University of Minnesota receiving a B.A. in International Relations with an emphasis on Economic Development and a minor in Economics.

Miles Silbert

Consultant
silbertm@pfm.com

Miles Silbert joined PFM's Minneapolis office in 2012. He recently completed PFM's intensive training for new Consultants and will work primarily providing technical and quantitative support for various clients.

Mr. Silbert graduated from Carleton College with a Bachelor's Degree in Economics.



Scope of Services

Scope of Services

The following pages provide more detail of the services the City can expect to receive as part of our Financial Advisory services.

We believe debt should be issued in accordance with a plan of finance which takes into account the outstanding debt, proposed debt, debt capacity, debt management policies, related budgetary issues, and rating agency criteria. Further, this plan must examine capital funding alternatives.

The determination of an efficient issue structure is a function of three elements: (i) is the proposed amortization schedule well coordinated with the issuer's existing and future planned debt obligations and revenues? (ii) are the resources pledged to debt redemption sufficient to meet total debt service coverage requirements when existing and proposed debt is combined? (iii) is the proposed maturity schedule designed to attract maximum interest from underwriters and potential investors in the current market, thus providing the lowest cost of capital.

Working with other members of the financing team and City staff, PFM will conduct any analysis of funding alternatives, cash flow projections and other revenue considerations pertinent to the financing. We will structure the issue and the terms under which the bonds are to be offered in the best possible manner, given the current market. PFM will design terms and conditions of sale that are compatible with underwriter and investor interests under varying market conditions while consistent with the issuer's fiscal policy objectives. Some of the key issues to be addressed are:

- Maturity Schedule and Pattern of Debt Service
- Security
- Call Features
- Credit Enhancement
- Reserves
- Premium or Discount Restrictions

As part of PFM's debt management services, we regularly review our clients' outstanding obligations for refunding and restructuring potential. PFM has extensive experience advising on refunding transactions and we have spent a significant amount of time developing a suite of analytical tools to assist the City with the structuring, sizing and management of the debt financed portion of its capital program. PFM has a dedicated quantitative team to support the City's analytic and quantitative needs, and the proposed project team can draw on the services of our in-house Quantitative Strategies Group ("QSG") and Pricing Group. The QSG has developed an extensive portfolio of proven models that we use for both structuring purposes and to independently confirm the analyses performed by investment banks for our clients. The Pricing Group provides our clients with informed, independent advice on the structure and pricing of their debt instruments.

Sale Method Determination

PFM offers the City significant credentials as an independent financial advisor having extensive experience with both the competitive and negotiated financing methods of sale. PFM's approach to advising clients regarding sale method is consistent with the recommended policy of the GFOA in that the competitive sale method is favored unless compelling reasons are present which necessitate a negotiated sale. Each situation is different and must be evaluated on its merits and specific circumstances. While the City maintains a high credit quality for its certificate of participation debt and has been historically successful with negotiated sales, competitive sales may be a valuable tool for the issuance. PFM, with its dedicated pricing group, has experience in this area well ahead of other independent financial advisors. Committed to representing the interests of the issuer, we have developed a reputation as a keen, but fair, negotiator on behalf of our clients.

In the City's case, we would consider the following characteristics prior to recommending a particular sale method:

- Proposed debt structure and size
- Credit quality
- Issuer characteristics
- Prevailing market conditions



Scope of Services

- Issuer policy objectives

Bond Sale Activities

PFM provides a broad range of services related to the actual issuance of bonds and will coordinate with all financing team members throughout the entire process. Services that PFM would expect to provide to the City for its financing regardless of sale method include:

- Develop a financing timetable to identify the responsibilities of each participant in the transaction. The schedule will be designed to permit sufficient time for review of all disclosure materials by City staff prior to final printing and distribution.
- Make recommendations with respect to the plan of finance, security provisions, maturity schedules, amortization schedules, redemption provisions and credit enhancement features. A pre-sale analysis comprised of the structuring decisions will be provided, if appropriate.
- Assist the City in the selection of other financing team members, such as bond registrar, paying agent, managing underwriters (negotiated sale), private placement agents, trustee, printers, credit enhancement providers, feasibility consultants, special counsel, and such other professionals as requested by the City.
- Prepare and deliver a postsale analysis to the City which will document the results of the sale, summarize the essential terms of the offering, identify market conditions at the time of sale, and describe the sales results of other comparable issues in the market.
- In conjunction with bond counsel, prepare and deliver a transcript of the legal documents, if necessary.
- Provide ongoing advice throughout the life of the bond issue to discuss general matters related to the financing and answer any questions. This service is provided as part of our initial fee and no supplemental billings occur for this service.

Competitive Sale Method. In addition to the tasks listed above, the following tasks will be performed for bonds sold through a competitive bond sale.

- ✓ Provide analysis and recommendations with respect to bidding rules appropriate to the size and complexity of the issue within market preferences and constraints. The bidding rules will be developed to encourage the largest number of bidders and to provide incentives for efficient bids to be structured so that the resulting debt service to be paid by the City will be the lowest possible.
- ✓ Assist in the preparation of a Request for Proposals and Proposal Form to be used by the City in advertising the sale and describing the terms thereof and the form and rules by which bids will be taken and evaluated. The Request for Proposals and Proposal Form will be distributed along with the Preliminary Official Statement to prospective bidders. PFM will post the Preliminary Official Statement electronically on our competitive bond calendar which can be accessed through www.pfm.com.
- ✓ Arrange to have electronic bidding available via PARITY® or other appropriate electronic bidding provider.
- ✓ PFM circulates the Preliminary Official Statement and Notice of Sale to Bloomberg, TM3, and a wide list of underwriters through our forward calendar. Additionally, we will contact potential bidders (managing firms and the syndicate managers) to market the issue in the weeks preceding the sale.
- ✓ On the day of sale, receiving and evaluating bids to determine the most favorable bid and recommending appropriate action for the City, including attendance at the City Council meeting to present the sale results and recommendation.

Negotiated Sale Method. The following tasks will be performed for bonds sold through negotiated sale. These tasks are in addition to the tasks listed above which are common to all financings.

- ✓ Participate in the preparation of a request for proposals (RFP) for managing underwriters for review by the City. Provide a suggested distribution list for the RFP to qualified underwriters or firms which have indicated an interest in serving as managing underwriter.
- ✓ Assist in the development of criteria to evaluate underwriting proposals.
- ✓ Participate in the preparation of an RFP for other service providers, such as liquidity banks or remarketing agents, as needed.



Scope of Services

- ✓ Recommend a structure for the group of managing underwriters, such as the number of firms and types of firms to be represented. If requested, we will recommend selection of specific firms.
- ✓ Assist in the negotiation of the compensation terms for the managing underwriters. Some of these terms can and should be determined following selection (management fee and expenses) while other elements (takedown and net to underwriting) should be reflective of market conditions.
- ✓ Prior to market entry, prepare an independent analysis of market conditions and proposed interest rates based upon comparable issues. Negotiate on behalf of the City the most favorable interest rates with the managing underwriters during the course of pre-marketing, order taking period and final pricing.

PFM and PFMAM are involved in the capital markets on a daily basis and offer our clients professional resources which equal or surpass those of any investment banking firm without the conflicts of interest that underwriting firms bring to the table. Our only business is providing financial, investment, and consulting advice to its clients. Previously, we provided a ranking chart that presented our performance in 2012 as compared to other financial advisory firms. The chart to the right presents how PFM compared to underwriting firms. In 2012, PFM represented clients with respect to the issuance of 900 new, long-term debt transactions with a par value of over \$56.8 billion, placing PFM at the top of firms in the municipal market including major Wall Street investment banks. Although PFM is **an independent financial advisor, not a broker or dealer**, this market presence ensures that we have

access to up-to-date market information and trends, including investor demand and preferences. PFM has also invested significant resources in technology and industry information sources including Bloomberg, Thompson Municipal Market Data, and Telerate, in addition to proprietary information databases including a Variable Rate Reset Database and MSRB Trade Data filter and evaluator technology. Utilizing these resources, we will provide highly quantitative, current, and relevant market information to the City.

The market information amassed by PFM is analyzed by our Quantitative Strategies Group and Pricing Group, using various quantitative models and market indices to understand how our clients' bonds should price. In negotiated sales, we use these analyses to determine the target price that we expect the underwriter to meet, and provide the analysis to the underwriters in support of our position. Our fixed-rate pricing analysis is designed to establish the relative value of a client's debt, independent of alternative coupon structures and/or call provisions. PFM has developed an analytically rigorous way to determine appropriate pricing levels, which serves as the basis of our negotiations with underwriters on behalf of our clients. We analyze historical and comparable transactions on a maturity-by-maturity basis. PFM performs option-adjusted yield ("OAY") analysis on every maturity of our clients' historical issues and every comparable transaction. By comparing bonds on an option adjusted spread basis, we remove the "noise" created by different coupons (option values), focusing on the credit spread of historical and comparable bond issues.

PFM has a dedicated, in-house bond Pricing Group that will join the core finance team to support the pricing of the City's bonds. PFM's Pricing Group operates completely independent of the underwriting of municipal securities by banks and securities dealers. PFM's Pricing Group provides centralized access to market information and trends, leverages our knowledge firm-wide for our clients' benefit, cultivates professional peer-to-peer relationships with underwriting desks, and fosters a better understanding of the internal workings of the underwriting process at the investment banks. Our

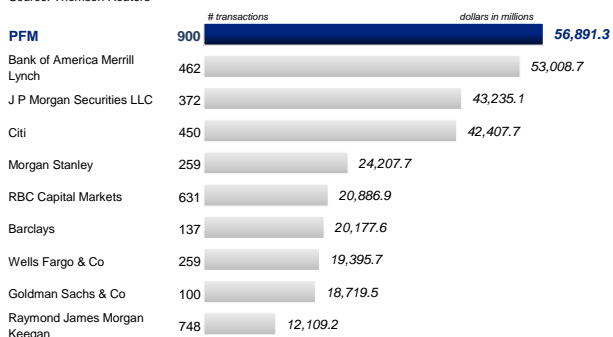
2012 Full Year Overall Long Term Municipal New Issues

PFM vs Underwriters

National Municipal Financial Advisory vs Underwriter Ranking

Full to Each, Equal if Joint Financial Advisor; True Economics to Each Bookrunner

Source: Thomson Reuters



Pricing Resources

- Pricing Desk dedicated to primary market pricing
- Access to industry market services & data
 - ✓ Bloomberg
 - ✓ Municipal Market Advisors
 - ✓ Municipal Market Data
 - ✓ Thompson Municipal Market Monitor (TM3)
 - ✓ DBC
- Asset Management Group involved in fixed income market daily
- On average, PFM prices three transactions every business day
- Experience pricing different types of structures

Analytical / Structuring Tools

- Call Option Valuation Model
- Deep Discount Bond Pricing Analysis
- Insurance Valuation Model
- Refunding Screen with Option Valuation
- Defeasance/Tender Optimization Model
- Deal Pricing
 - ✓ Conduct Option Adjusted Spread Analysis
 - ✓ Develop Coupon and Term Bond Strategies
 - ✓ Establish Target Scale
 - ✓ Communicate Pricing Expectations to Underwriter
 - ✓ Negotiate Scale and Pricing Strategy
 - ✓ Review Sales and Market Conditions
 - ✓ Negotiate Final Scale



Scope of Services

approach to pricing debt instruments is unique in the municipal industry. PFM takes a rigorous and quantitative approach to pricing an issuer's bonds. Instead of surveying investment bankers to get a feel for the market, the Pricing Group provides our clients with informed, independent advice on the structure and pricing of all their debt instruments. Our capital markets access and experience, combined with our vast technical capabilities and expertise in financial modeling, our total commitment to the issuer's point of view, our knowledge of state and federal securities law, and our clout as the largest financial advisor in the market enables PFM to offer our clients unparalleled depth and aptitude as their financial advisor. We are in the primary market, on average, three times per day pricing tax-exempt bond issues for our clients. Moreover, we maintain a database on the pricing performance and syndicate member compensation on our client's bond issues.

There are many standard work products encompassed in each financing transactions. Examples of standard work products include, but aren't limited to: presale analysis, cost of issuance budgets, official statement preparation, rating agency presentations, postsale and closing documents. We will also participate in the review of documents prepared by other service providers which may include, but aren't limited to: rating reports, continuing disclosure certificates, compliance policies, resolutions, ordinances and other documents.

After a financing transaction is completed, and prior to closing, PFM will monitor the City's bonds and trading on the secondary market utilizing trade data as provided on Electronic Municipal Market Access (EMMA), a comprehensive, centralized online source which provides access to municipal disclosures, market transparency data and educational materials about the municipal securities market.

Financing Methods & Other Tools

We provide our clients with the most thorough technical analysis and advice possible. PFM has extensive experience structuring and advising our clients on new money and refinancing transactions with equal success through competitive and negotiated bond sales, as well as private placements. The breadth of our expertise includes all types of debt issuances, such as revenue bonds, general obligation bonds, notes, and certificates of participation. These financings have been supported by fixed rate, variable rate, and a variety of other mechanisms appropriate to the financing requirements.

Firm's Experience in Advance Refunding

PFM has extensive experience advising on refunding transactions. PFM has ranked number one in the nation for refunding transactions since 2000. In 2011 alone, PFM advised on 412 refunding transactions with a par value of \$20.4 billion. While the number of PFM transactions is significant, of greater importance is the careful analysis and innovative approaches we have developed to analyze the potential value for a refunding as well as implementation of the transaction to achieve maximum savings for the client.

PFM has spent a significant amount of time developing a suite of analytical tools to assist the City with the structuring, sizing and management of the debt financed portion of its capital program. We have a dedicated quantitative team to support the City's analytic and quantitative needs, which are more fully described in the section entitled Additional Available Resources on page 20. The proposed project team can draw on the services of our in-house Quantitative Strategies Group ("QSG") and Pricing Group. The QSG has developed an extensive portfolio of proven models that we use for both structuring purposes and to independently confirm the analyses performed by investment banks for our clients. The Pricing Group provides our clients with informed, independent advice on the structure and pricing of their debt instruments.

2011 Year End Refunding Long-Term Municipal New Issues
National Municipal Financial Advisory Ranking - Equal Credit to Each Financial Advisor
Source: *Thomson-Reuters*

	# transactions	dollars in millions
PFM	412	20,431.9
Public Resources Advisory Group	53	12,062.7
FirstSouthwest	299	9,956.9
Govt. Development Bank for Puerto Rico	12	4,413.1
RBC Capital Markets	65	2,973.3
Montague DeRose & Associates LLC	17	2,958.6
Kaufman Hall & Associates Inc.	31	2,916.0
Lamont Financial Services Corp.	12	2,550.7
A C Advisory Inc.	11	2,332.6
Seattle-Northwest Securities Corp.	18	1,681.5



Scope of Services

Debt Profile Model and Refunding Screen: Analysis begins with a comprehensive understanding of an issuer's existing debt. PFM has constructed a debt profile of the City's outstanding issues. Our debt profile model has the flexibility to show the historical and current debt of the City, and includes all the relevant information pertaining to each bond issue, including maturity date, coupon, yield, call date and prices, and sources and uses, among other details. The debt profile model can quickly produce reports and summary statistics such as debt service, par or interest only, as well as a debt service graph. It also includes a debt schematic, which is a pictorial display of debt issuances that tracks refunding candidates and outstanding escrows.

PFM's debt profile model has the ability to identify forward refunding candidates which are analyzed using appropriately adjusted forward borrowing rates. In addition to calculating the savings that may be generated by refunding a given maturity, the model also identifies any negative arbitrage and/or transferred proceeds penalty attributable to that maturity. In this way, PFM can analyze why a given bond is or is not achieving a specified target savings level. The PFM refunding methodology incorporates an "option value" model that allows us to estimate, on a maturity-by-maturity basis, the percentage of the theoretical maximum option value that is captured by the refunding. The option value model can guide the City as to whether it is appropriate to execute a refunding of certain bonds now or wait to obtain probable additional savings. The output of this information from the debt profile model is referred to as the Refunding Screen.

Credit Management & Rating Approach

PFM has developed considerable experience working with the major national rating agencies. As a result of our experience advising more than one hundred clients each year for a wide range of purposes, PFM has developed a clear understanding of the analytical methods utilized by Moody's Investors Service ("Moody's"), Standard & Poor's Financial Services LLC ("S&P"), and Fitch Ratings ("Fitch"). Our professional staff is trained to conduct in-depth credit analyses comparable to the rating agencies so that both credit strengths and weaknesses can be identified by the issuer prior to the presentation of materials to rating analysts.



We recognize and congratulate the City in obtaining "Aaa" and "AAA" ratings from Moody's and S&P. PFM is sensitive to the special attention required to support high credit ratings. An issuer's credit rating has never been more important than in the current market.

We believe the following tenets act as the cornerstone of productive relationships with the rating agencies:

- Credible Strategic Financial Plan.** An issuer must develop a credible long term financial plan which addresses funding for its forecast capital projects. The Strategic Financial Plan may comprise several components, including a Capital Improvement Plan and a Debt Management Policy. Many clients are also developing multi-year budget forecasts, often included as part of the annual budget. The PFM Team offers the City an integrated approach to financial advisory services, going beyond traditional transaction management and incorporating our expertise in sophisticated model development and long-term strategic financial planning. PFM's extensive experience working with schools with similar characteristics across the country will give the City access to the processes and solutions developed as the challenges associated with city finance are addressed.
- Analysis of Credit Strengths and Weaknesses.** As part of our initial work with new clients, PFM completes a comprehensive evaluation of the client's credit strength and weaknesses. We review credit reports issued in the last five years so that credit-related trends and issues identified by rating analysts are well understood. PFM then completes an historic analysis of all key financial performance and economic benchmarks. PFM observations and recommendations to improve documentation of key credit parameters are reviewed with City staff. PFM identifies any weak performance indicators and works with staff to develop appropriate responses or documentation for discussion with rating agency analysts. Key credit strengths are thoroughly analyzed. This analytical approach reflects PFM's view that the issuer must develop a thorough understanding of the key credit issues and the ability to comfortably and confidently discuss the issues with credit analysts, thus demonstrating the management direction expected of high credit quality issuers.



Scope of Services

- **Comprehensive Credit Presentation.** PFM assists our clients in developing sophisticated, comprehensive credit presentations that incorporate all of the client's positive credit features and provide responses to any actual or potential credit negatives. The PFM documentation provided to credit analysts often is incorporated in final credit reports.

As a national firm, we routinely collaborate and provide feedback to rating agencies on proposed changes to various criteria. Most recently, PFM collaborated across all offices to respond to Moody's request for comment from market participants regarding its plan to implement several adjustments to pension liability, asset, and cost information reported by US state and local governments and their pension plans.

Additional Available Resources

As mentioned earlier in the proposal, PFM has a broad range of additional resources available to the City. The following paragraphs highlight a few of those services.

Public Private Partnerships – PFM has been at the forefront of Public-Private Partnerships since their introduction to the U.S. markets. PFM has substantial experience in assisting its clients with reviewing and evaluating corporate credits. The ability of a private sector partner to perform as needed is a key issue in many circumstances. PFM has advised state and local agencies in the review and evaluation of more than 40 public-private partnerships ("P3") projects. We have advised on the negotiation of 15 development agreements and on the financing of more than \$2 billion in projects. PFM views the role of planning as integral to developing a successful financing program. We have participated in numerous studies to determine the viability of public-private partnerships, privatization and other innovative funding alternatives. PFM typically engages in financial planning from a holistic viewpoint, analyzing every alternative and determining the most effective. Whether it is helping draft legislation, evaluating vendor financing alternatives, or advising on the benefits of design-build development, PFM prides itself in the ability to offer full service financial consulting to its clients. On May 16, 2011, PFM acquired Chicago-based Scott Balice Strategies LLC. The acquisition positions PFM as a leader with Midwest clients, large state and local governments, and as experts in the emerging field of public-private partnerships (P3s). Within the P3 sector, PFM has worked jointly and maintains a strong relationship with CH2M Hill.

Pricing Group - PFM has a dedicated, in-house bond Pricing Group that will join the core finance team to support the pricing of the Authority's bonds. PFM's Pricing Group operates completely independent of the underwriting of municipal securities by banks and securities dealers. The formation of PFM's Pricing Group provides centralized access to market information and trends, leverages our knowledge firm-wide for our clients' benefit, cultivates professional peer-to-peer relationships with underwriting desks, and fosters a better understanding of the internal workings of the underwriting process at the investment banks. Our approach to pricing debt instruments is unique in the municipal industry. PFM takes a rigorous and quantitative approach to pricing an issuer's bonds. Instead of "calling around" to investment bankers to get a feel for the market, the Pricing Group provides our clients with informed, independent advice on the structure and pricing of all their debt instruments. Our capital markets access and experience, combined with our vast technical capabilities and expertise in financial modeling, our total commitment to the issuer's point of view, our knowledge of state and federal securities law, and our clout as the largest financial advisor in the market enables PFM to offer our clients unparalleled depth and aptitude as their financial advisor. We are in the primary market, on average, three times per day pricing tax-exempt bond issues for our clients. Moreover, we maintain a database on the pricing performance and syndicate member compensation on our client's bond issues.



Quantitative Strategies Group - PFM's Quantitative Strategies Group (the "QSG") comprises a group of dedicated professionals whose mission is to develop proactive strategies and tools for all of PFM's business practices. Through the use of advanced financial analysis and commercial and proprietary software, the QSG develops customized



Scope of Services

solutions to meet the individual quantitative needs of all of our clients. Our extensive quantitative capabilities allow us to provide services which address the full scope of strategic and operational considerations, ranging from capital financing strategies, to strategic planning and budgeting, to investment management strategies. Our Financial Risk Management, Structural Optimization, Refunding Efficiency, Forward Pricing, Other Post-Employee Benefits, Capital Improvement Fund and Budget Projection Models, to name a few, assist us in achieving these objectives.

In addition to our on-going firm-wide support, the QSG constantly monitors the municipal market in order to stay abreast of new and emerging products and strategies and our strong market presence places PFM at the forefront of the development and implementation of these tools and strategies for our clients. To further enhance the accuracy and comprehensiveness of our leading quantitative resources, the QSG maintains direct access to numerous information services such as Bloomberg, Thomson Financial, Securities Data Corporation, and Municipal Market Advisors, among others.

In addition to the aforementioned roles, the QSG administers the firm's extensive three-month municipal finance training program for new and lateral hires. The QSG also participates in hosting PFM's training seminars for our clients, with topics spanning from the basics of transaction management to policy level considerations.

The multitude of services offered by the Quantitative Strategies Group assists PFM in optimizing its partnerships with clients. This collaborative relationship supports our clients' ability to exceed both short-term budgetary goals and long-term strategic and capital financing objectives.

Research Group - PFM professionals are supported by our Marketing & Research Support ("M&RS") department which specializes in market research, training, website development and graphic design.

M&RS, specifically, maintains an extensive library of industry publications and reports as well as on-line news resources such as Factiva, Bond Buyer and Thomson Municipal News. In addition to our in-house technical resources, PFM makes use of nationally recognized timesharing networks, database management systems, and market information repositories including those of: Bloomberg, Thomson-Reuters (Securities Data Corporation), Thomson Financial and Municipal Market Data, MuniStatements, Factiva, eMAXX, rating agency databases, and Municipal Market Advisors.

Further, access to the rating agency databases (Moody's, S&P, Fitch) allows PFM to retrieve information such as credit/special/criteria reports, municipal financial ratio analyses and press releases.

All of these resources allow us to also track municipal new issue pricings, access market interest rate scales, search for credit reports, and track secondary market trading activity and holders of bonds.

Structured Products/Derivatives Advisory Group - PFM is unique among financial advisory firms in that we have a group of professionals solely dedicated to the derivatives and structured financial products area—the PFM Structured Products and Derivatives Group. Our Structured Products professionals are focused on providing clients with the highest quality advice and insight on the utilization, structuring, procurement and management of interest rate swaps, derivatives, and other financial products. In the early 1990s, we made significant investments in experienced personnel and technology and set up a separate business group to focus on this extremely complex area. Today, PFM is the recognized leader in the industry in both providing swap analysis, policy and strategy development, and in providing swap procurement services on both competitive and negotiated swap transactions.